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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EPET](#) [PGOV](#) [EG](#)  
SUBJECT: AMBASSADOR'S MEETING WITH FINANCE MINISTER YOUSSEF  
BOUTROS GHALI

SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET.

¶1. (SBU) Summary: In an upbeat May 15 introductory courtesy call with Finance Minister Youssef Boutros Ghali (YBG), the Ambassador discussed local perceptions of economic reform, Egyptian assistance to Iraq and the Iraq Compact meeting in Stockholm, the Egyptian debt relief proposal, the Minister's candidacy for Chair of the IMF's International Monetary Financial Committee (IMFC), and several economic reform benchmarks. End Summary.

¶2. (SBU) The Ambassador began by complimenting YBG on his reform track record and recent accomplishments, noting his tremendous reputation around the globe. He commented that he has always been an economic reformer, but it has only been since 2004 that he has had a sufficient number of cabinet allies to translate his vision into action. He expressed appreciation for the bilateral relationship and said that too frequently people get mired in minor details of the relationship, without remembering the big picture positives. The Ambassador expressed hope that that one area where there could be some specific positive movement is in the area of the QIZ expansion, noting that Ambassador Schwab was expected to meet Minister Rachid at the World Economic Forum in Sharm el-Sheikh. The Ambassador also noted that while she is optimistic, there is some domestic opposition to QIZ expansion. The Ambassador noted her interest in stimulating greater public private partnerships in Egypt and the importance of a healthy corporate social responsibility culture as well. YBG agreed with this, offering that Egyptians expect the government to do everything for them, so frequently are unwilling to take their own initiative or action.

¶3. (SBU) In response to the Ambassador's concern that the poor are still not benefiting from Egypt's strong growth, YBG quickly responded that Egypt has enjoyed seven percent growth for only two years -- inadequate time for true trickle down to lift everyone's income. He lamented the level of support he and the economic reformers have enjoyed domestically, despite the fact that they believe they are going all out to help both the business community and the poor. He noted that there has been considerable negative local reaction to recent revenue generating measures designed to plug the deficit, but that the international reaction had been positive. He also regretted that local business leaders, who are experiencing excellent growth and profits, privately heap praise on the economic reformers but publicly are silent or negative. He further complained that the press loves the negative stories and no one is willing to write the good news.

¶4. (SBU) The Ambassador raised the issue of Ministerial attendance at the Iraq Compact meeting in Stockholm on May 29, noting that she had also raised it with Foreign Minister

Aboul Gheit. YBG made no commitments but said he would talk to Aboul Gheit to determine appropriate attendance. The Ambassador also pressed YBG on debt relief for Iraq and inquired about the origins of the workers' remittances. YBG said that he has told Iraqi Finance Minister Jabr that the Iraqis must provide a good faith effort to pay the workers' remittances and only then could the Egyptians consider relief on the official debt. He noted that the issue was now a political one and outside his hands. He said the workers' remittances predated the 1991 war, so were not covered by the United Nations Compensation Commission. (Note: In a letter exchange last spring before the Iraq Compact was signed in Sharm el-Sheikh, Jabr offered for Iraq to pay half of the \$408 million in workers remittances and that Egypt, would in turn, forgive all official debt. YBG's letter in response was dismissive and Egypt was silent on the subject at the Iraq Compact event. There has been no progress on the matter in the intervening time. End note.)

¶5. (SBU) The Ambassador provided a short summary of Minister for International Cooperation Abounaga's visit to the US and her debt relief proposal, noting that the proposal was not particularly well received and is unlikely to go anywhere. YBG showed little reaction.

¶6. (SBU) YBG alerted the Ambassador of his candidacy for the Chair of the IMF's IMFC. Other candidates are Indian Finance Minister Chidambaram and Canadian Finance Minister Flaherty. The Ambassador noted his candidacy and said we would relay the message to Washington.

¶7. (SBU) The Ambassador inquired about one of the more difficult revenue measures that the Minister is currently

engaged in: real estate tax reform, which is also a benchmark in the Human Development and Private Sector Development MOU. YBG noted that it was very difficult and that the Parliament was not as supportive as he would like. He wants to slash the rates from 40 to 10 percent, while also eliminating all exemptions. Eliminating the exemptions will vastly increase the numbers who owe taxes. He conceded that he does not really need the new law, as he could eliminate the exemptions with a ministerial decree, but that would leave the high rate unchanged. Regarding other benchmarks, he said the Ministry will need to submit the comprehensive budget law next Parliamentary session, rather than the current one, as he has not had time to read the draft law that USAID had helped with. The MOU had envisioned accomplishment of this benchmark in 2008 -- USAID has already been informed of this delay.

¶8. (SBU) The Ambassador concluded by thanking YBG for his role as board member on the Cairo American College, and noted that the status of the school needs to be determined, to ensure that the school remains tax exempt.

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